

United States Bankruptcy Court
District of NevadaIn re:
CASH CLOUD, INC.
DebtorCase No. 23-10423-mkn
Chapter 11District/off: 0978-2
Date Rcvd: Sep 18, 2023User: admin
Form ID: pdf928Page 1 of 3
Total Noticed: 1

The following symbols are used throughout this certificate:

Symbol **Definition**

- + Addresses marked '+' were corrected by inserting the ZIP, adding the last four digits to complete the zip +4, or replacing an incorrect ZIP. USPS regulations require that automation-compatible mail display the correct ZIP.

Notice by first class mail was sent to the following persons/entities by the Bankruptcy Noticing Center on Sep 20, 2023:

Recip ID	Recipient Name and Address
db	+ CASH CLOUD, INC., 11700 W CHARLESTON BLVD., #441, LAS VEGAS, NV 89135-1573

TOTAL: 1

Notice by electronic transmission was sent to the following persons/entities by the Bankruptcy Noticing Center.

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NONE

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NONE

NOTICE CERTIFICATION

I, Gustava Winters, declare under the penalty of perjury that I have sent the attached document to the above listed entities in the manner shown, and prepared the Certificate of Notice and that it is true and correct to the best of my information and belief.

Meeting of Creditor Notices only (Official Form 309): Pursuant to Fed .R. Bank. P.2002(a)(1), a notice containing the complete Social Security Number (SSN) of the debtor(s) was furnished to all parties listed. This official court copy contains the redacted SSN as required by the bankruptcy rules and the Judiciary's privacy policies.

Date: Sep 20, 2023

Signature: /s/Gustava Winters**CM/ECF NOTICE OF ELECTRONIC FILING**

The following persons/entities were sent notice through the court's CM/ECF electronic mail (Email) system on September 18, 2023 at the address(es) listed below:

Name	Email Address
ADAM P. SCHWARTZ	on behalf of Interested Party LUX VENDING LLC d/b/a BITCOIN DEPOT aschwartz@carltonfields.com, amaranto@carltonfields.com
ADAM P. SCHWARTZ	on behalf of Defendant LUX VENDING LLC d/b/a BITCOIN DEPOT aschwartz@carltonfields.com, amaranto@carltonfields.com
ANNE FREELAND	on behalf of Creditor AVT Nevada L.P. atfreeland@michaelbest.com, knpowell@michaelbest.com;courtmail@michaelbest.com
ARIEL E. STERN	on behalf of Creditor IPFS CORPORATION ariel.stern@akerman.com akermanlas@akerman.com
BART K. LARSEN	on behalf of Creditor Enigma Securities Limited BLARSEN@SHEA.LAW 3542839420@filings.docketbird.com

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BRETT A. AXELROD

on behalf of Debtor CASH CLOUD INC. baxelrod@foxrothschild.com, pchlum@foxrothschild.com;mwilson@foxrothschild.com;arcdocketing@foxrothschild.com

BRETT A. AXELROD

on behalf of Plaintiff CASH CLOUD INC., DBA COIN CLOUD baxelrod@foxrothschild.com, pchlum@foxrothschild.com;mwilson@foxrothschild.com;arcdocketing@foxrothschild.com

BRETT A. AXELROD

on behalf of Plaintiff CASH CLOUD INC., dba COIN CLOUD baxelrod@foxrothschild.com, pchlum@foxrothschild.com;mwilson@foxrothschild.com;arcdocketing@foxrothschild.com

BRETT A. AXELROD

on behalf of Plaintiff CASH CLOUD INC., DBA COIN CLOUD, baxelrod@foxrothschild.com, pchlum@foxrothschild.com;mwilson@foxrothschild.com;arcdocketing@foxrothschild.com

BRIAN D. SHAPIRO

on behalf of Creditor OPTCONNECT MANAGEMENT LLC brian@brianshapirolaw.com, kshapiro@brianshapirolaw.com;6855036420@filings.docketbird.com

BRIGID M. HIGGINS

on behalf of Creditor Black Hole Investments fna EZ Coin LLC bhiggins@blackwadhamslaw, dmeeter@blackwadhamslaw;msmallsworth@blackwadhamslaw;mdavis@blackwadhamslaw

CANDACE C CARLYON

on behalf of Interested Party CHRIS MCALARY ccarlyon@callyoncica.com CRobertson@callyoncica.com;nrodriguez@callyoncica.com;9232006420@filings.docketbird.com;Dcica@callyoncica.com

CHAPTER 11 - LV

USTPRegion17.lv.ecf@usdoj.gov

CRAIG P. DRUEHL

on behalf of Creditor OPTCONNECT MANAGEMENT LLC craig.druehl@dechert.com

DAWN M. CICA

on behalf of Interested Party CHRIS MCALARY dcica@callyoncica.com nrodriguez@callyoncica.com;crobertson@callyoncica.com;dmcica@gmail.com;dcica@callyoncica.com;tosteen@callyoncica.com;3342887420@filings.docketbird.com

JAMES M JIMMERTON

on behalf of Plaintiff CASH CLOUD INC., DBA COIN CLOUD jmj@jimmersonlawfirm.com

JAMES PATRICK SHEA

on behalf of Creditor Enigma Securities Limited jshea@shea.law blarsen@shea.law;support@shea.law

JEANETTE E. MCPHERSON

on behalf of Plaintiff CASH CLOUD INC., dba COIN CLOUD JMcPherson@FoxRothschild.com, ahosey@foxrothschild.com,ARCDocketing@foxrothschild.com

JEANETTE E. MCPHERSON

on behalf of Debtor CASH CLOUD INC. JMcPherson@FoxRothschild.com, ahosey@foxrothschild.com,ARCDocketing@foxrothschild.com

JOHN T. WENDLAND

on behalf of Creditor AVT Nevada L.P. jwendland@wdlaw.com, NVFile@weildrage.com

Jeffrey R. Sylvester

on behalf of Interested Party CKDL Credit LLC jeff@sylvesterpolednak.com, kellye@sylvesterpolednak.com

KURT R. BONDS

on behalf of Creditor Populus Financial Group Inc. nvefile@hallevans.com, kbonds@alversontaylor.com;adidio@alversontaylor.com

LEW BRANDON, JR.

on behalf of Creditor UNITED NATURAL FOODS INC. l.brandon@bsnv.law

LOUIS M BUBALA, III

on behalf of Interested Party BROOKFIELD RETAIL PROPERTIES INC. lbubala@kcnvlaw.com, cdroessler@kcnvlaw.com;kmilks@kcnvlaw.com

MARJORIE A. GUYMON

on behalf of Creditor Armando Redmond bankruptcy@goldguylaw.com mariaa@goldguylaw.com;lauriea@goldguylaw.com;amarisp@goldguylaw.com;kathrinev@goldguylaw.com

MARJORIE A. GUYMON

on behalf of Creditor Trangistics Inc. bankruptcy@goldguylaw.com, mariaa@goldguylaw.com;lauriea@goldguylaw.com;amarisp@goldguylaw.com;kathrinev@goldguylaw.com

MAURICE VERSTANDIG

on behalf of Creditor Brink's Inc. mac@mbvesq.com, lisa@mbvesq.com;verstandig.mauricer104982@notify.bestcase.com

MICHAEL L WACHTELL

on behalf of Creditor ORACLE AMERICA INC. mwachtell@buchalter.com

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User: admin

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NEDDA GHANDI

on behalf of Creditor ROCKITCOIN LLC nedda@ghandilaw.com,
 lks@ghandilaw.com,nedda@ecf.inforuptcy.com;r41525@notify.bestcase.com,shara@ghandilaw.com

OGONNA M. BROWN

on behalf of Creditor Cole Kepro International LLC obrown@lewisroca.com,
 ogonna-brown-4984@ecf.pacerpro.com,dberhanu@lewisroca.com,ombcalendar@lewisroca.com;jhess@lewisroca.com,klopez@le
 wisroca.com,rcreswell@lewisroca.com

OGONNA M. BROWN

on behalf of Defendant COLE KEPRO INTERNATIONAL LLC obrown@lewisroca.com,
 ogonna-brown-4984@ecf.pacerpro.com,dberhanu@lewisroca.com,ombcalendar@lewisroca.com;jhess@lewisroca.com,klopez@le
 wisroca.com,rcreswell@lewisroca.com

PAUL HAGE

on behalf of Creditor Cole Kepro International LLC phage@taftlaw.com

ROBERT R. KINAS

on behalf of Creditor GENESIS GLOBAL HOLDCO LLC rkinas@swlaw.com,
 jmath@swlaw.com;mfull@swlaw.com;docket_las@swlaw.com;sdugan@swlaw.com;jfung@swlaw.com

RONALD E. GOLD

on behalf of Creditor WPG Legacy LLC rgold@fbtlaw.com,
 jkleisinger@fbtlaw.com;eseverini@fbtlaw.com;sbryant@ecf.courtdrive.com

RONALD M TUCKER

on behalf of Creditor SIMON PROPERTY GROUP INC. rtucker@simon.com,
 rwoodruff@simon.com,cmartin@simon.com,ptrope@simon.com

RYAN A. ANDERSEN

on behalf of Interested Party Luis Flores ryan@aandblaw.com
 tatiana@aandblaw.com;melissa@aandblaw.com;ecf-df8b00a4597e@ecf.pacerpro.com;valerie@aandblaw.com;andersen.ryana.b1
 17998@notify.bestcase.com

RYAN J. WORKS

on behalf of Creditor Committee OFFICIAL COMMITTEE OF UNSECURED CREDITORS rworks@mcdonaldcarano.com
 kkirn@mcdonaldcarano.com;bgrubb@mcdonaldcarano.com

RYAN J. WORKS

on behalf of Plaintiff OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF CASH CLOUD INC. dba COIN CLOUD
 rworks@mcdonaldcarano.com, kkirn@mcdonaldcarano.com;bgrubb@mcdonaldearano.com

SHAWN CHRISTIANSON

on behalf of Creditor ORACLE AMERICA INC. schristianson@buchalter.com, cmcintire@buchalter.com

STACY H RUBIN

on behalf of Interested Party LUX VENDING LLC d/b/a BITCOIN DEPOT srubin@nevadafirm.com,
 oswibies@nevadafirm.com;mholley@nevadafirm.com;BKECF@nevadafirm.com

STACY H RUBIN

on behalf of Defendant LUX VENDING LLC d/b/a BITCOIN DEPOT srubin@nevadafirm.com,
 oswibies@nevadafirm.com;mholley@nevadafirm.com;BKECF@nevadafirm.com

STEPHEN T LODEN

on behalf of Interested Party CHRIS MCALARY sloden@diamondmccarthy.com cburrow@diamondmccarthy.com

STRETTO

ecf@cases-cr.stretto-services.com aw01@ecfcbis.com,pacerpleadings@stretto.com

STUART FREEMAN WILSON-PATTON

stuart.wilson-patton@ag.tn.gov

TIMOTHY A LUKAS

on behalf of Creditor Good 2 Go Stores LLC ecflukast@hollandhart.com

U.S. TRUSTEE - LV - 11

USTPRegion17.lv.ecf@usdoj.gov

ZACHARY WILLIAMS

on behalf of Plaintiff CASH CLOUD INC., dba COIN CLOUD zwilliams@foxrothschild.com,
 ARCDocketing@foxrothschild.com;ahosey@foxrothschild.com

TOTAL: 47

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Honorable Mike K. Nakagawa
United States Bankruptcy Judge



4 Entered on Docket
5 September 18, 2023

6 UNITED STATES BANKRUPTCY COURT

7 DISTRICT OF NEVADA

8 * * * * *

9 In re:) Case No. 23-10423-mkn
10 CASH CLOUD, INC.,) Chapter 11
11 dba COIN CLOUD,)
12 Debtor.) Date: September 13, 2023
13) Time: 9:30 a.m.
14)

ORDER ON MOTION TO CONVERT CASE TO CHAPTER 7¹

15 On September 13, 2023, the court heard the Motion to Convert Case to Chapter 7
16 (“Conversion Motion”) brought by Chris McAlary in the above-captioned proceeding. The
17 appearances of counsel were noted on the record. After the hearing, the matter was taken under
18 submission.

19 **BACKGROUND²**

20 On February 7, 2023, Cash Cloud, Inc. dba Coin Cloud (“Debtor”) filed a voluntary

22 ¹ In this Order, all references to “ECF No.” are to the number assigned to the documents
23 filed in the above-captioned bankruptcy case as they appear on the docket maintained by the
24 Clerk of Court. All references to “Section” are to provisions of the Bankruptcy Code, 11 U.S.C.
25 §§ 101, *et seq.* All references to “FRBP” are to the Federal Rules of Bankruptcy Procedure. All
references to “FRE” are to the Federal Rules of Evidence.

26 ² Pursuant to FRE 201(b), the court takes judicial notice of all materials appearing on the
27 docket in the above-captioned proceeding See Bank of Am., N.A. v. CD-04, Inc. (In re Owner
Mgmt. Serv., LLC Trustee Corps.), 530 B.R. 711, 717 (Bankr. C.D. Cal. 2015) (“The Court may
28 consider the records in this case, the underlying bankruptcy case and public records.”).

1 “skeleton” Chapter 11 petition (“Petition”). (ECF No. 1).³ In 2014, Debtor was organized in
 2 Nevada to provide means for consumers to purchase and sell digital currencies
 3 (“cryptocurrency”) through hundreds of digital currency machines distributed nationwide. The
 4 Petition was signed by Chris McAlary (“McAlary”) as its president. The Petition is
 5 accompanied by a copy of an Action by Written Consent of the Directors signed by McAlary as
 6 director of the Debtor, which also includes a provision retaining Daniel Ayala (“Ayala”) as an
 7 “independent director.”

8 On February 17, 2023, an official committee of unsecured creditors (“UCC”) was
 9 appointed in this Chapter 11 proceeding. (ECF No. 131).⁴

10 On March 9, 2023, Debtor filed its schedules of assets and liabilities (“Schedules”) along
 11 with its statement of financial affairs (“SOFA”). (ECF Nos. 239 and 240). Part 13, Section 28.1
 12 of the SOFA attests that McAlary is the Chief Executive Officer who holds 100% of the interest
 13 in the Debtor. The Schedules and SOFA are signed under penalty of perjury by McAlary as the
 14 chief executive officer.

15 On May 8, 2023, Debtor filed a proposed Chapter 11 plan of reorganization providing for
 16 implementation alternatives based on whether the Debtor completed a sale of its assets. (ECF
 17 No. 528). Debtor also filed a disclosure statement (“Disclosure Statement”) describing the
 18 proposed plan. (ECF No. 529). The proposed Chapter 11 plan was signed by McAlary as chief
 19 executive officer.

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22 ³ Under the local rules for this judicial district, the Chapter 11 proceeding was designated
 23 as a “mega case” inasmuch as the Petition indicated the involvement of more than 5,000
 creditors and more than \$100 million in liabilities.

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⁴ Under usual practice, membership on an official committee of unsecured creditors is solicited by the Office of the United States Trustee, and formed based on the responses received. See 11 U.S.C. § 1102(a)(1). Notice of the committee’s formation is given and the identities of all members are disclosed. Notice also is given whenever the composition of a committee changes. Interested parties can seek to change committee membership upon a proper showing. See generally 7 COLLIER ON BANKRUPTCY, ¶ 1102.05[3] (Richard Levin and Henry J. Sommer, eds., 16th ed. 2023).

1 On June 8, 2023, McAlary, resigned.⁵

2 On June 30, 2023, an order was entered approving a sale of substantially all of the
3 Debtor's assets. (ECF No. 795).

4 On August 1, 2023, Debtor filed an amended proposed Chapter 11 plan implementing
5 the asset-sale alternative ("Amended Plan"). (ECF No. 996).

6 On August 3, 2023, Debtor filed a proposed stipulation providing derivative standing to
7 the UCC to pursue various claims of the Chapter 11 estate, including possible claims against
8 McAlary ("Derivative Standing Stipulation"). (ECF No. 1009).

9 On August 7, 2023, McAlary filed an objection to approval of the Derivative Standing
10 Stipulation (ECF No. 1029), and also filed the instant Conversion Motion. (ECF No. 1034).

11 On August 9, 2023, McAlary filed an objection to confirmation of the Amended Plan.
12 (ECF No. 1061).

13 On August 17, 2023, a hearing was conducted on confirmation of the Amended Plan as
14

15 ⁵ On June 26, 2023, Debtor filed a notice of McAlary's resignation and the designation of Ayala as its responsible person. (ECF No. 772). Despite McAlary's resignation, Debtor remained a Chapter 11 debtor in possession. Accordingly, it still has a fiduciary duty to all creditors and parties in interest rather than to its principal. See Woodson v. Fireman's Fund Ins. Co. (In re Woodson), 839 F.2d 610, 614 (9th Cir. 1988). Counsel for the debtor in possession has a like duty, see Everett v. Perez (In re Perez), 30 F.3d 1209, 1219 (9th Cir. 1994), and so does any official committee of unsecured creditors appointed in the case. See Woods v. City Nat'l Bank & Trust Co., 312 U.S. 262, 268-69 (1941); In re Islet Sciences, Inc., 640 B.R. 425, 451 (Bankr. D. Nev. 2022). Counsel for an official creditors committee also shares the same fiduciary obligation. See In re Sonicblue Inc., 2007 WL 926871, at *13 (Bankr. N.D. Cal. Mar. 26, 2007). The bankruptcy filings of many other cryptocurrency-related entities are well-known, e.g., FTX Trading Ltd., Genesis Global Capital, LLC, Core Scientific, Inc., BlockFi, Inc., Celsius Network LLC, Voyager Digital Holdings, Inc., and Three Arrows Capital, Ltd. Like other emerging trends, cryptocurrency may have significant disadvantages to the unwary, as already depicted in pop culture. See, e.g., <https://youtu.be/H8iBrH3l448?si=EnJxxArJEUkzTt0b> (crypto and a fresh start through a shaving cream). Although the Debtor was formed to take advantage of this relatively new field, the relevant features applicable to bankruptcy relief are not new, e.g., the requirements of full and honest disclosure, the presence of trustees, court-authorized committees and professionals to investigate activities of the debtor, the necessity of prior court approval for certain actions, the serious penalties applicable to misconduct, and the like. After McAlary's resignation, it is not surprising that the UCC took a greater role, in conjunction with the Debtor through its independent director, in investigating and pursuing possible claims against third parties, including the Debtor's sole shareholder, chief executive officer, and director.

1 well as approval of the Derivative Standing Stipulation.

2 On August 24, 2023, an order was entered overruling McAlary's objection to
3 confirmation of the Amended Plan ("Plan Objection Order"). (ECF 1120). Contemporaneously,
4 an order was entered overruling McAlary's objection to the Derivative Standing Stipulation and
5 granting approval of the Derivative Standing Stipulation ("Derivative Standing Order"). (ECF
6 No. 1119).

7 On August 25, 2023, an order was entered granting final approval of the Disclosure
8 Statement and confirming the Amended Plan ("Confirmation Order"). (ECF No. 1126).

9 On August 30, 2023, Debtor filed an opposition to the Conversion Motion ("Debtor
10 Conversion Opposition") accompanied by a declaration of its independent director, Daniel Ayala
11 ("Ayala Declaration"). (ECF Nos. 1150 and 1151). On the same date, a joinder in that
12 opposition was filed by the UCC ("UCC Joinder"). (ECF No. 1152).

13 On September 6, 2023, McAlary appealed the order overruling his objections to plan
14 confirmation. (ECF No. 1171). On the same date, McAlary appealed the plan confirmation
15 order. (ECF No. 1172).

16 On September 6, 2023, McAlary also filed a reply in support of the Conversion Motion
17 ("Conversion Reply") along with his supporting declaration ("McAlary Declaration"). (ECF
18 Nos. 1173 and 1174).

19 DISCUSSION

20 McAlary seeks to convert these proceedings from Chapter 11 to Chapter 7 pursuant to
21 Section 1112(b)(1). He maintains that there is a continuing loss or diminution of the bankruptcy
22 estate that already is administratively insolvent. Under these circumstances, McAlary argues that
23 "cause" for conversion exists under Section 1112(b)(4)(A) in the best interests of creditors and
24 the bankruptcy estate. See Conversion Motion at 15:1-25. It appears, however, that McAlary
25 simply overlooks the prohibition set forth in Section 1112(b)(2). Under that section, a court
26 "may not" convert a Chapter 11 proceeding to Chapter 7 if it "finds and specifically identifies
27 unusual circumstances establishing that converting...the case is not in the best interests of
28

1 creditors and the estate, and the debtor or any other party in interest establishes" both of the
 2 following:

3 "(A) there is a reasonable likelihood that a plan will be confirmed within the
 4 timeframes established in sections 1121(e) and 1129(e)...., or if such
 5 sections do not apply, within a reasonable period of time; and
 6 (B) the grounds for converting...the case include an act or omission of the
 7 debtor other than under paragraph 4(A) –
 8 (i) for which there exists a reasonable justification for the act or
 9 omission; and
 10 (ii) that will be cured within a reasonable period of time fixed by
 11 the court."

12 11 U.S.C. § 1112(b)(2) (emphasis added). By its terms, Section 1112(b)(2)(B) requires the
 13 present of an act or omission other than under Section 1112(b)(4)(A).

14 Section 1112(b)(4)(A) encompasses a "substantial or continuing loss to or diminution of
 15 the estate and the absence of a reasonable likelihood of rehabilitation." Section 1112(b)(2)(B)
 16 specifies that a permissible ground for conversion of a Chapter 11 case cannot include the very
 17 ground asserted by McAlary. The reason is that a finding under Section 1112(b)(2)(A), i.e., "a
 18 reasonable likelihood that a plan will be confirmed," would be inconsistent with a finding of
 19 cause under Section 1112(b)(4)(A), i.e., "continuing...diminution of the estate and the absence of
 20 a reasonable likelihood of rehabilitation." For that reason, Section 1112(b)(2)(B) permits other
 21 grounds for cause under Section 1112(b)(4)(B) through (P), all of which can be cured within a
 22 reasonable time.⁶

23 In this instance, the Amended Plan was confirmed and the Plan Confirmation Order has
 24 not been stayed nor has a stay been requested. Section 1112(b)(2)(A) is satisfied because the
 25 Amended Plan already has been confirmed, which is far beyond a mere likelihood. Section
 26 1112(b)(2)(B) is satisfied because McAlary impermissibly relies on the type of cause described
 27 in Section 1112(b)(4)(A). None of the other examples of cause described in Section 1112(b)(4)
 28 have been alleged or even suggested by McAlary, e.g., gross mismanagement [(4)(b)],

29 ⁶ Because Chapter 11 expressly permits a debtor to liquidate through a confirmed plan
 30 rather than to reorganize, the Amended Plan is consistent with the rehabilitation process
 31 contemplated by the Bankruptcy Code.

1 unauthorized use of cash collateral [(4)(D)], failure to file a disclosure statement or timely
 2 confirm a plan [(4)(J)], revocation of a confirmation order [(4)(L)], or material default by the
 3 debtor with respect to a confirmed plan [(4)(N)]. Under these circumstances, even if McAlary
 4 satisfied the requirements of Section 1112(b)(1), the unusual circumstances of the instant case⁷
 5 establish that conversion of the Chapter 11 proceeding to Chapter 7 is not in the best interests of
 6 creditors and the estate within the meaning of by Section 1112(b)(2). For that reason, denial of
 7 the Conversion Motion is appropriate.

8 Beyond the statutory deficiencies of his Conversion Motion, McAlary also ignores that
 9 he only appealed the Plan Objection Order and the Confirmation Order, but never sought or
 10 obtained a stay of either one. Moreover, McAlary also did not appeal the Derivative Standing
 11 Order.⁸ All three of those orders remain in effect and all of the court's considerations remain
 12 applicable.

13 As previously mentioned, McAlary filed his Conversion Motion ten days prior to the plan
 14 confirmation hearing. On the same day, he also filed his objections to the Derivative Standing
 15 Motion. Two days later, McAlary filed his objection to confirmation of the Amended Plan. Not
 16 surprisingly, the Conversion Motion overlaps much of what McAlary argued in connection with
 17 his objections to the Derivative Standing Motion and to confirmation of the Amended Plan.

18 For example, McAlary argues that there is a continuing loss and diminution of the
 19 bankruptcy estate, see Conversion Motion at 15:3-11, which the court considered in connection
 20 with McAlary's objections to plan confirmation. See Plan Objection Order at 4:3-18. McAlary
 21

22 ⁷ Those unusual circumstances include McAlary's commencement of the Chapter 11
 23 proceeding as the Debtor's sole shareholder, officer and director, McAlary's execution of the
 24 Schedules, SOFA and other materials under penalty of perjury, McAlary's resignation after
 25 submission of a Chapter 11 plan that permitted substantially all of the estate assets to be sold,
 26 McAlary's subsequent resignation and transition to the independent director, the UCC's
 investigation and pursuit of estate claims against multiple parties including McAlary, the
 Debtor's decision to pursue confirmation of the Amended Plan rather than voluntary dismissal or
 conversion to Chapter 7, and the absence of any other creditor support in favor of conversion.

27 ⁸ Under FRBP 8002(a)(1), McAlary had 14 days after entry of the Derivative Standing
 28 Order to file a notice of appeal. Because that order, like the Plan Objection Order, was entered
 on August 24, 2023, McAlary had until September 7, 2023, to file his appeal. He did not do so.

1 also argues that pursuit of estate claims by a disinterested Chapter 7 trustee, including claims
 2 against McAlary, would be preferable to pursuit by the UCC. See Conversion Motion at 16:5-
 3 13. The court also considered that argument in connection with McAlary's objection to the
 4 Derivate Standing Stipulation. See Derivative Standing Order at 5:12-20 & n. 10. Moreover,
 5 McAlary asserts that the Amended Plan has no definite effective date on which feasibility would
 6 depend, see Conversion Reply at 3:7-13, which the court also considered in connection with
 7 McAlary's objection to plan confirmation. See Plan Objection Order at 5:3-25.

8 Although McAlary submitted his reply in support of the Conversion Motion well after
 9 entry of the Plan Objection Order and Derivative Standing Order, nothing in his written or oral
 10 argument persuades the court that conversion to Chapter 7 is now in the best interests of creditors
 11 after the court already confirmed the Amended Plan in the best interests of creditors.⁹ His reply
 12 and the supporting declaration portray an unflattering image of the UCC as well as the Debtor's
 13 professionals, see Conversion Reply at 3:14 to 4:8, 5:4-16, 5:22 to 7:2, 8:24 to 9:8, 9:13-19, and
 14 McAlary Declaration at ¶¶ 8, 9, 15, while at the same time accusing others of disparaging him.
 15 See Conversion Reply at 2:23 to 3:6, 4:9 & n.4. While these competing jabs are easily thrown
 16 and possibly damaging to all sides, the appointment of a Chapter 7 trustee would deflect none of
 17 them.¹⁰ On this record, the court also concludes that cause has not been demonstrated under
 18 Section 1112(b)(1) to warrant conversion of this proceeding to Chapter 7.

19 **IT IS THEREFORE ORDERED** that the Motion to Convert Case to Chapter 7 brought
 20 by Chris McAlary, Docket No. 1034, be, and the same hereby is, **DENIED**.

21 Copies sent via CM/ECF ELECTRONIC FILING
 22

23 ⁹ Other than attesting to an offer made to the Debtor after the hearing on August 17,
 24 2023, see McAlary Declaration at ¶ 5, nothing he now attests or suggests would constitute "new
 25 evidence" that he could not have been offered at the hearing.

26 ¹⁰ As previously mentioned, the UCC in this Chapter 11 proceeding was appointed on
 27 February 17, 2023. Its membership has been no secret. Even though membership on an official
 28 committee of creditors can be challenged, see discussion at note 4, supra, neither the Office of
 the United States Trustee, any other creditors, nor even McAlary have sought the removal of any
 member of the UCC. Moreover, the removal of any member of the UCC, like the resignation of
 McAlary from management of the Debtor, does not dictate the outcome of either's activities.

1 Copies sent to all parties via BNC

2 Copies sent via BNC to:
3 CASH CLOUD, INC.
4 11700 W. CHARLESTON BLVD., #441
5 LAS VEGAS, NV 89135

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